

Mr. Chairman and members of the Committee, thank you for this opportunity to discuss the President's supplemental request.

Before I begin, I want to pay tribute to the men and women of our armed services. Leading a coalition, our armed forces delivered a military victory without precedent.

In roughly three weeks they liberated a country larger than Germany and Italy combined. And they did so with forces smaller than the Army of the Potomac.

Our armed forces accomplished all this while absorbing and inflicting minimal casualties. Iraqis understood that we tried to spare the innocent. After the first days of the war, only those citizens of Baghdad living close to obvious targets feared our bombing.

Mr. Chairman, I know that you and all Americans hate waking up to hear a newscast that begins, "Last night another American soldier was killed in Iraq..."

My day starts eight hours ahead of yours. I am among the first to know of those deaths and no one regrets them more than I do.

But these deaths, painful as they are, are not senseless. They are part of the price we pay for civilization, for a world that refuses to tolerate terrorism and genocide and weapons of mass destruction.

Those who ambush Coalition forces, like those responsible for recent terror bombings and those who ambushed Governing Council member Aquila al-Hashimi last Saturday, are trying to thwart constitutional and democratic government in Iraq. They are trying to create an environment of insecurity.

They will win some battles, but they are losing the war with history.

President Bush's vision, in contrast, provides for an Iraq made secure through the efforts of Iraqis. In addition to greater security, the President's plan provides for an Iraqi economy based on sound economic principles and bolstered by a reliable infrastructure. And finally, the President's plan provides for a democratic and sovereign Iraq at the earliest reasonable date.

If we fail to recreate Iraq as a sovereign democracy sustained by a solid economy we will have handed the terrorists a gift.

Terrorists love state sponsors, countries that provide them with cash, arms, refuge, and a protected place to rest and plan future operations. Saddam's Iraq was one of those countries. Remember the Rome and Vienna airport massacres of 1985? The architect of those massacres, Abu Nidal, lived out his days under Saddam's protection. Similarly, Abu Abbas, the architect of the Achille Lauro hijacking and the murder of Leon Klinghoffer, lived in Baghdad for years as an honored guest.

When terrorists cannot find a congenial state sponsor, they seek environments with little or no effective government. When militias, warlords and communities war with each other, terrorists are right at home. Think of Lebanon in the 1980's.

Either outcome, or some combination of both, is possible in Iraq if we do not follow up on our military victory.

The opposite is also true. Creating a sovereign, democratic, constitutional and prosperous Iraq deals a blow to terrorists. It shows you can have freedom and dignity without using truck bombs to slaughter the innocent. It gives the lie to those who describe us as enemies of Islam, enemies of the Arabs and enemies of the poor. That is why the President's request has to be seen as an important element in the global war on terrorism.

Our national experience teaches us how to consolidate a military victory.

We did not have that experience 85 years ago when we emerged victorious from World War I. Many had opposed the war. As a nation, we wished to shake the old world dust off our boots and solve problems at home. We had spent and lent a lot of money. The victors celebrated their victory, mourned their dead and demanded the money they were owed.

We know the results of that policy. Extremism, bred in a swamp of despair, bankruptcy and unpayable debts, gave the world Fascism in Italy and Nazism in Germany.

The result was another World War. After that conflict we showed we had learned that military victory must be followed by a program to secure the peace. In 1948 our greatest generation recognized that military victory was hollow if democracy was not reinforced against tyranny. Democracy could not flourish unless Europe's devastated economies were rebuilt.

That generation responded with the boldest, most generous and most productive act of statesmanship in the past century—the Marshall Plan. Winston Churchill called it “the most unsordid act in history.”

When Secretary of State George C. Marshall first described the Marshall plan he laid out some truths that resonate today.

“Its purpose,” Marshall said, “should be the revival of a working economy... so as to permit the emergence of political and social conditions in which free institutions can exist.”

Highlighting the importance of approaching the issues at the highest levels, Marshall said, “Any assistance that this government may render in the future should provide a cure rather than a mere palliative.”

The Marshall Plan, enacted with overwhelming bipartisan support, set war-torn Europe on the path to the freedom and prosperity which Europeans enjoy today. After a thousand years as a cockpit of war Europe became a cradle of peace in just two generations.

The grants to Iraq the President seeks bespeak a grandeur of vision equal to the one which created the free world at the end of World War II. Iraqis living in freedom with dignity will set an example in this troubled region which so often spawns terrorists. A stable peaceful economically productive Iraq will serve American interests by making America safer.

There are some things I would like to point out about this billion request:

- We have a definite plan with milestones and dates.
- No one part of the supplemental is dispensable and no part is more important than the others. This is a carefully considered request.
- This is urgent. The urgency of military operations is self-evident. The funds for non-military action in Iraq are equally urgent. Most Iraqis welcomed us as liberators and we glowed with the pleasure of that welcome. Now the reality of foreign troops on the streets is starting to chafe. Some Iraqis are beginning to regard us as occupiers and not as liberators. Some of this is inevitable, but faster progress on reconstruction will help.

Unless this supplemental passes quickly, Iraqis face an indefinite period with blackouts eight hours daily. The link to the safety of our troops is indirect, but real. The people who ambush our troops are small in number and do not do so because they have undependable electric supplies. However, the population's view of us is directly linked to their cooperation in hunting down those who attack us. Earlier progress gives us an edge against the terrorists.

- We need to emulate the military practice of using overwhelming force in the beginning. Incrementalism and escalation are poor military practice and they are a poor model for economic assistance.
- This money will be spent with prudent transparency. Every contract of the \$20 billion for Iraq will be competitively bid.
- That the money be granted and not loaned is essential. Initially, offering assistance as loans seems attractive. But once again we must examine the facts and the historical record. Iraq has almost \$200 billion in debt and reparations hanging over it as a result of Saddam's economic incompetence and aggressive wars. Iraq is in no position to service its existing debt, let alone to take on more. Mountains of unpayable debt contributed heavily to the instability that paved Hitler's path to power. The giants of the post-World War II generation recognized this and Marshall Plan assistance was overwhelmingly grant aid.

The President's first priority is security, security provided by Iraqis to and for Iraqis. That security extends to our forces and changes Iraq from a logistics and planning base for terrorists into a bulwark against them.

The President envisions three pillars of security

- Public safety—police, border enforcement, fire and a communications system to link them.
- National defense—a new army and civil defense system.
- Justice system—courts and prisons

This security assistance to Iraq benefits the United States in four ways.

First, Iraqis will be more effective. As talented and courageous as the Coalition forces are, they can never replace an Iraqi policeman who knows his beat, who knows his people, their customs, rhythms and language. Iraqis want Iraqis providing their security and so do we.

Second, as these Iraqi security forces assume their duties, they replace Coalition troops in the roles that generate frustration, friction and resentment—conducting searches, manning check points, guarding installations.

Third, this frees up Coalition forces for the mobile, sophisticated offensive operations against former regime loyalists and terrorists for which they are best suited.

Finally, these new Iraqi forces reduce the overall security demands on Coalition forces and speed the day when we can bring troops home.

Security is the first and indispensable element of the President's plan. It is not, by itself, sufficient to assure success because a security system resting only on arms is a security system that will fail. Recreating Iraq as a nation at peace with itself and with the world, an Iraq that terrorists will flee rather than flock to, requires more than people with guns.

A good security system cannot persist on the knife edge of economic collapse. When Saddam scurried away from Coalition forces he left behind an economy ruined not by our attacks but by decades of neglect, theft and mismanagement.

Imagine the effect on the economy of operating without a budget for a quarter-century. Saddam, who came to power in 1979, never prepared a national budget. Ill-conceived and clumsily executed policies left Iraq with:

- an oil industry starved nearly to death by underinvestment,
- thousands of miles of irrigation canals so weed-clogged as to be almost useless, and
- an electrical system that can at best meet only two-thirds of demand.

Reflect, if you will, on that last item. As millions of American households (including the Bremer household) have learned in recent days, it is almost impossible to live in the modern world without dependable electricity. Think of what we would be asking of Iraqis were we to suggest they fashion a new economy, a new democracy, while literally in the dark eight hours per day.

The Iraqis must refashion their economy. Saddam left them a Soviet-style command economy. That poor model was further hobbled by cronyism, theft and pharonic self-indulgence by Saddam and his intimates.

Important changes have already begun.

The Iraqi Minister of Finance on Sunday announced a set of market-oriented policies that is among the world's boldest.

Those policies include:

- A new Central Bank law which grants the Iraqi Central Bank full legal independence, makes price stability the paramount policy objective, gives the Central Bank full control over monetary and exchange rate policy, and broad authority to supervise Iraqi banks. This is rare anywhere in the world and unique in the region.
- The Iraqi Government Council proposed and on Thursday I signed into law Thursday a program opening Iraq to foreign investment. Foreign firms may open wholly owned companies or buy 100 percent of Iraqi businesses. Under this law foreign firms receive national treatment and have an unrestricted right to remit profits and capital.
- Tariff policy is equally simple. There is a two-year "reconstruction tariff" of five percent on all but a few imports.
- Foreign banks are free to enter Iraq and will receive equal treatment with Iraqi banks.
- On October 15, Iraq will get a new currency, the New Dinar, which will float against the world's currencies.

Iraq's pro-growth policies should bring real, sustained growth and protect against something we have all seen and regretted—economic assistance funds disappearing into a morass of poverty.

The Iraqi Government has put in place the legal procedures for encouraging a vibrant private sector. But those policies will come to nothing if Iraq must try to reestablish itself on an insufficient and unreliable electric grid or in a security environment that puts a stick in the spokes of the wheels of commerce.

Iraq cannot realize its potential to return quickly to the world stage as a responsible player without the services essential to a modern society.

We have made significant progress restoring these essential services. The widely predicted humanitarian crisis did not occur. There was no major flow of refugees. All of Iraq's 240 hospitals and 90 percent of its health clinics are open. There is adequate food and there is no evidence of epidemic. We have cleared thousands of miles of irrigation canals so that farmers in these areas have more water than they have had for a generation. Electrical service will reach pre-war levels within a month.

However, the remaining demands are vast, which is why most of the President's request for non-military assistance is for infrastructure programs.

On another front there is already good news. The democratization of Iraq, on which so much global attention is focused, is further advanced than many realize.

Encouraging a quick political transformation, we have laid out a clear, seven-step process leading to sovereignty. Three of the seven necessary steps have been completed:

1. An Iraqi Governing Council, the most broadly representative governing body in Iraq's history, was appointed in July.
2. In August the Governing Council named a Preparatory Committee to determine the mechanism for writing Iraq's new, permanent constitution.
3. Earlier this month the Governing Council appointed ministers to run the day-to-day affairs of Iraq.
4. The fourth step is writing a constitution, which sets the framework for all that follows. This will occur after the Iraqi Governing Council decides how to act on the recommendations of the Preparatory Committee. The constitution will be written by Iraqis.
5. The constitution will be ratified by popular vote of the entire adult population. This will give Iraq its first popularly approved constitution.
6. After the constitution is ratified, elections for a new government will be held.
7. The final step will come after elections, when we transfer sovereignty from the Coalition to the new government.

Some, including members of the Iraqi Governing Council, suggest we should give full sovereignty to an Iraqi government immediately or very soon. I firmly believe that such haste would be a mistake. Iraq has spent a quarter century under a dictatorship as absolute and abusive as that of Nazi Germany. As a result, political distortions and inequities permeate the fabric of political life.

No appointed government, even one as honest and dedicated as the Iraqi Governing Council, can have the legitimacy necessary to take on the difficult issues Iraqis face as they write their constitution and elect a government.

The only path to full Iraqi sovereignty is through a written constitution, ratified and followed by free, democratic elections. Shortcutting the process would be dangerous.

As you examine the President's plan I am sure you will see that it is an integrated and thoughtful whole. Every part depends on every other part. As the Congress

knows, sweeping political reforms cannot be separated from sweeping economic reforms.

It is equally obvious that a population beleaguered by the threat of terrorism and endless insufficiencies in water, electricity, and telephones finds it hard to concentrate on the virtues of a new constitution and market-oriented economic policies.

The need to protect the Coalition and the populace alike against terrorists and common criminals is obvious and indispensable.

All of this requires the help of Congress.

The United States must take the lead in restoring Iraq as a friend and democratic model. There is a donor conference in Madrid in late October. We must set the example for other nations of goodwill. Other nations who do not wish to see Iraq become a terror-supporting tyranny or a landscape of factions. We set an example and work with other donors to avoid the near anarchy in which terrorists will feel right at home.

When we launched military operations against Iraq we assumed a great responsibility that extends beyond defeating Saddam's military.

We cannot simply pat the Iraqis on the back, tell them they are lucky to be rid of Saddam and then ask them to go find their place in a global market-- to compete without the tools for competition.

To do so would invite economic collapse followed by political extremism and a return to terrorism.

If, after coming this far, we turn our backs and let Iraq lapse into factional chaos, some new tyranny and terrorism, we will have committed a grave error.

Not only will we have left the long-suffering Iraqi people to a future of danger and deprivation, we will have sewn the dragon's teeth which will sprout more terrorists and eventually cost more American lives.

You may think I exaggerate. I ask you to look at what happened in Afghanistan, another country which, after it was debilitated by decades of war and mismanagement became easy prey for the Taliban and al Qaida.

The reconstruction of Iraq may seem distant from American concerns today. Eight time zones and two continents separate the East Coast of the United States from Iraq. The West Coast is effectively half a world away.

Two years ago on September 11, terrorists brought their threat home to us. From a far-way corner of the world, they showed us that we must fight terrorism globally.

Iraq only seems far away. Today Iraq is a focal point in our global war on terrorism. Failure there would strengthen the terrorists morally and materially.

Success tells not just Iraqis, but the world that there is hope, that the future is not defined by tyranny on one side and terrorism on the other.

Mr. Chairman and members of the committee we respectfully ask Congress to honor the President's supplemental request, which responds to urgent requirements in order to achieve the vision of a sovereign, stable, prosperous and democratic Iraq at peace with us and with the world.

Mr. Chairman, I welcome your questions.